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FISCAL IMPACT STATEMENT

LS 6147
BILL NUMBER: HB 1023

NOTE PREPARED: Nov 16, 2003
BILL AMENDED:

SUBJECT: Earned Income Tax Credit.

FIRST AUTHOR: Rep. Day
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: The bill increases the state Earned Income Tax Credit to 10% of the federal Earned Income Tax Credit. The bill also makes the state credit permanent by repealing the expiration date.

Effective Date: January 1, 2005.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The Department of State Revenue would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes in this credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Earned Income Tax Credit (EITC) Refunds: The refundable portion of the Earned Income Tax Credit that goes to participants in the Temporary Assistance to Needy Families (TANF) Program qualifies as Maintenance of Effort (MOE) expenditures and contributes toward the state's annual MOE requirement under the TANF Program. It is estimated that refunds of the current 6% EITC could potentially total about \$8.0 M annually. This is based on a simulation utilizing state taxpayer data and federal Earned Income Credit (EIC) data. The increase in the EITC from 6% to 10% is estimated to increase refunds to approximately \$19.0 M annually. However, the amount of refund total that could potentially be claimed by TANF participants is indeterminable.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who qualify for the current EITC beginning in tax year 2005. The revenue impact is expected to begin in FY 2005, assuming the increase in the EITC leads to reductions in monthly withholding during the second half of the fiscal year. The estimated annual revenue loss from the bill in FY

2005 to FY 2008 is presented in the table below. The estimated revenue loss reflects the additional cost from the 10% EITC over the cost that would otherwise be incurred in accordance with current law. The revenue loss is estimated to increase by 4% per year after FY 2008.

Fiscal Year	Est. Revenue Loss from 10% EITC
2005	\$11.7 M
2006	46.8 M
2007	74.3 M
2008	77.3 M

Under current statute, the EITC is equal to 6% of the federal Earned Income Credit (EIC) and is scheduled to sunset after tax year 2005. The bill would increase the EITC from 6% to 10% of the federal EIC beginning in tax year 2005 and eliminate the current sunset provision. It is estimated that the current EITC will cost \$41.2 M in FY 2005 and \$24.6 M in FY 2006. The estimated revenue loss in FY 2006 is attributable to expected reductions in withholding due to the current EITC during the second half of tax year 2005. As the current EITC sunsets after tax year 2005, there will no longer be a revenue loss beginning in FY 2007. Thus, the estimated revenue loss for FY 2005 and for part of FY 2006 is attributable to the increase in the EITC from 6% to 10% in tax year 2005. The estimated revenue loss for part of FY 2006, and all of FY 2007 and FY 2008, is attributable to the 10% EITC in its entirety beginning in tax year 2006.

Assuming the base cost of the current 6% EITC beyond FY 2005, the budgetary impact of the increase to 10% is between \$28 M and \$31 M annually in the near term. The estimated base cost of the 6% EITC and resultant budgetary impact for FY 2005 to FY 2008 is presented in the table below.

Fiscal Year	Est. Base Cost of 6% EITC	Budgetary Impact of 10% EITC
2005	\$41.2 M	\$11.7 M
2006	42.9 M	28.6 M
2007	44.6 M	29.7 M
2008	46.4 M	30.9 M

Federal income tax data for tax year 2001 indicates that the federal EIC was claimed by 373,810 federal income tax filers residing in Indiana. The credits claimed in 2001 totaled about \$600.5 M. Annual growth in credits claimed by Indiana filers averaged 3.9% from 1999 to 2001.

Individual income tax revenue is deposited in the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: OFMA Income Tax Databases, Tax Years 200 & 2001; Internal Revenue Services, Statistics on Income, <http://www.irs.gov/taxstats>.

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